

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 94-010-G - ORDER NO. 95-80 ✓
JANUARY 19, 1995

IN RE: Annual Review of Purchased Gas Recovery) ORDER RULING ON
Procedures and Gas Purchasing Policies) GAS COSTS AND
of Piedmont Natural Gas Company.) GAS PURCHASING
) POLICIES

On October 16, 1991, the Public Service Commission of South Carolina (the Commission) issued its Order No. 91-927, which requires the Commission Staff (the Staff) to make an annual audit of the Purchased Gas Adjustment (PGA) and Gas Purchasing Policies of Piedmont Natural Gas Company (Piedmont or the Company), report to the Commission the results of Staff's audit, and to make the results available to the Company and the Consumer Advocate for the State of South Carolina (the Consumer Advocate) upon completion.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceedings. The Company was instructed to directly notify all of its customers affected. The Company submitted affidavits indicating that it had complied with these

instructions.

A hearing was held on November 1, 1994 and continued on January 4, 1995 in the offices of the Commission with the Honorable Rudolph Mitchell, Chairman, presiding. Piedmont was represented by Jerry W. Amos, Esquire, and John E. Schmidt, Esquire. The Company presented the testimony of Ann H. Boggs and Ware F. Schiefer. The Consumer Advocate was represented by Hana Pokorna-Williamson, Esquire, and Elliott F. Elam, Jr., Esquire; and the Commission Staff was represented by Gayle B. Nichols, Staff Counsel. The Staff presented the testimony of Jacqueline R. Cherry and Brent L. Sires.

Company witness Boggs testified that the current procedures in Piedmont's PGA result in a properly stated cost of gas recorded in compliance with the Commission's Orders, and that the deferred account activity was properly recorded and reported to the Commission as required. Staff witness Cherry testified that the balance in the deferred account at March 31, 1994 is in compliance with the intent of Commission Order No. 88-294.

Company witness Ware F. Schiefer testified with respect to the Company's "best cost purchasing philosophy," and the steps taken during the review period to comply with that philosophy. Schiefer testified that the Company is satisfied that the policies and procedures presently in place are prudent, and that they have produced adequate amounts of reasonably priced gas in capacity for Piedmont's customers.

Staff witness Sires testified that Piedmont has complied with

Commission Orders that set forth a manner in which the Company is to operate its PGA, that the same benchmark cost of gas should continue, and that Piedmont has made prudent purchasing decisions in order to meet both its firm customer demand entitlements in competing with the competitive alternate fuel market.

Subsequent to the hearing on January 4, 1995, Piedmont filed a letter requesting a reduction in its commodity benchmark price to \$2.20/dth to reflect changes in gas prices that have occurred subsequent to the period of review in this proceeding. The Commission was informed of this filing through the Proposed Order of Piedmont.

The Commission must consider several issues as a result of the hearing and briefs filed by all parties.

I.

Benchmark Commodity Cost of Gas

The Consumer Advocate contends that Piedmont's original proposed \$2.575/dth benchmark is not based on prudent estimates of its cost of gas. Instead, the Consumer Advocate proposes that the Commission set Piedmont's benchmark commodity cost of gas at \$2.1853/dth. As was stated, however, since the time of the hearing, Piedmont, on January 4, 1995, filed to reduce its commodity benchmark price to \$2.20/dth to reflect changes in gas prices that have occurred subsequent to the period of review in this proceeding.

Upon a consideration of the evidence, the Commission holds that \$2.20/dth should be set as the benchmark cost of gas as

representative of Piedmont's cost of gas on average over the next twelve (12) months. The Commission believes that this benchmark reasonably estimates Piedmont's cost of gas, taking into consideration fluctuating factors such as weather conditions and customers' demand. Further, the Commission holds that the Commission-developed safeguards, such as the true-up mechanism, will protect Piedmont's customers from paying excess gas costs, should the actual gas costs turn out to be lower than \$2.20/dth.

As noted in Staff witness Cherry's testimony, the true-up mechanism assures that Piedmont's customers pay no more than Piedmont's actual cost of gas. We note that the \$2.20/dth is close to the Consumer Advocate's recommended benchmark cost of gas at \$2.1853/dth.

This reduction is approved without prejudice to the parties right to request a review of the benchmark in accordance with the Commission's PGA provisions. In our opinion, the current PGA results in a properly stated cost of gas, and that the deferred account activity was properly recorded and reported to the Commission. The evidence indicates that the balance at March 31, 1994 is in compliance with the intent of the Commission's Order No. 88-294.

Considering the holding as stated above, a ruling on Piedmont's objection to placing a Consumer Advocate-sponsored study into evidence on the grounds of hearsay is hereby rendered moot.

II.

Capacity Releases

The Consumer Advocate contends Piedmont should be required to develop a monthly forecast of the capacity available for release and the value of that capacity on each pipeline. Further, the Consumer Advocate recommends that the Commission order that anticipated revenues from capacity releases be included in the PGA calculation, and that the Staff develop appropriate accounting treatment for capacity release revenues.

Based upon the evidence, the Commission believes that any revenues or credits received by Piedmont for capacity releases should be passed on to the Company's ratepayers through the PGA. Piedmont witness Schiefer also testified that he expected revenues from capacity releases to be reflected in the cost of gas.

The Commission holds, however, that anticipated revenues from capacity releases should not be included in the calculation of the PGA rate. Instead, the Commission believes that when revenues or credits from capacity releases are provided to Piedmont, the revenues or credits should be reflected in the cost of gas. The Commission believes that it is more appropriate to include supplier revenues or credits when they are known and measurable, rather than solely anticipated.

III.

Treatment of Cost of Transco FT-NT Capacity

The Consumer Advocate contends the Commission should defer cost recovery for gas purchased by Piedmont under its FT-NT

contract with Transco until such time as the Company establishes the economic prudence of the contract. Staff disagrees, as does this Commission. Based on all the evidence of record, the Commission holds that gas costs associated with the FT-NT contract should be recovered by Piedmont. The Commission concludes that the 12,785 dth/day of additional capacity was clearly needed by Piedmont for peaking purposes in January 1994. At the time the additional capacity was needed, few, if any, other timely options were available to Piedmont, according to the Company's witnesses. Moreover, the Staff recognizes, as does the Commission, that as Piedmont's customer base continues to grow, additional capacity will be crucial to the reliability of the Company's system.

Staff, however, has recommended that in the future, the Commission require Piedmont to evaluate potential supply contracts in the context of its Integrated Resource Plan (IRP). Further, the Staff has proposed that Piedmont be required to meet with the Staff in a timely manner when the Company is considering entering into supply contracts. The Commission has considered the Staff proposal, and believes that it should be granted. Clearly, Piedmont should be addressing its potential supply contracts in the context of its IRP, since the supply side matters are an integral part of IRPs.

IV.

Prudence

Based on the record as a whole, the Commission must conclude that the Company's Gas Purchasing Practices and Policies, including

the purchase of Transco FT-NT capacity are prudent, and that the Company shall not be required to defer any costs related to the Transco FT-NT capacity. The Commission does believe, however, that Piedmont should continue to account for revenues from capacity release as it did during the review period. Additionally, the Commission believes that the parties should discuss the future handling of capacity release revenues, and that after said discussion, should make recommendations to the Commission for any prospective changes in the present procedures.

IT IS THEREFORE ORDERED THAT:

1. Piedmont be, and it hereby is, permitted to reduce its commodity cost of gas effective February 1, 1995, to \$2.20/dth as requested in Piedmont's filing of January 4, 1995. This reduction, however, is without prejudice to Piedmont's right to further revise the benchmark in accordance with provisions of its PGA, if future conditions warrant, and is without prejudice to the parties' right to request a review of the benchmark in accordance with the Commission's PGA provisions.

2. That the current procedures in Piedmont's PGA result in a properly stated cost of gas recorded in compliance with Commission's Orders, and that the deferred account activity was properly recorded and reported to the Commission as required, and that the adjusted balance of Account No. 253.04 of \$924,716 as of March 31, 1994, is found to be in compliance with the intent of the Commission's Order No. 88-294.

3. That Piedmont continue to account for revenues from

capacity release as it did during the review period, however, the parties are directed to discuss the future handling of capacity release revenues and to make a recommendation to the Commission for any prospective changes in the present procedure that they may deem appropriate.


4. The Company's Gas Purchasing Practices and Policies, including the purchase of Transco FT-NT capacity are hereby found to be prudent.

5. The Company shall not be required to defer any costs related to the Transco FT-NT capacity.

6. The Company shall file rate schedules and tariffs reflecting the new benchmark cost of gas within ten (10) days of the Company's receipt of this Order.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)